

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



39TH DISTRICT AGRICULTURAL ASSOCIATION
CALAVERAS COUNTY FAIR
ANGELS CAMP, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-039
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

39TH DISTRICT AGRICULTURAL ASSOCIATION
CALAVERAS COUNTY FAIR
ANGELS CAMP, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

AUDIT STAFF

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AUDIT REPORT NUMBER

#08-039

39TH DISTRICT AGRICULTURAL ASSOCIATION
CALAVERAS COUNTY FAIR
ANGELS CAMP, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Stephen Kautz, President
Board of Directors
39th DAA, Calaveras County Fair
101 Frogtown Road-P.O. Box 489
Angels Camp, CA 95222-0489

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 39th District Agricultural Association (DAA), Calaveras County Fair, Angels Camp, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 39th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In 2007, we were unable to apply general auditing procedures without extensive effort to satisfy ourselves about the disclosed amount for Account #410, Admissions, (stated as \$192,069) as reflected in the accompanying Statement of Operations/Changes in Accountability for the year ending December 31, 2007. As of December 31, 2007, the Fair could not locate all daily admissions sales reports that support the amounts recorded in the general ledger.

Because of the matter discussed in the third paragraph, in our opinion, except for the amount reported in Account #410, Admissions, the 2007 financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the 39th District Agricultural Association, as of December 31, 2007 and the results of its operations and



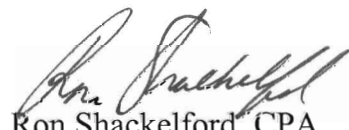
changes in accountability, and cash flows-regulatory basis for the year then ended, in conformity with the accounting principles generally accepted in the United States of America.

In 2006, we were unable to apply general auditing procedures without extensive effort to satisfy ourselves about the disclosed amount for Account #113, Cash in Bank – Operating [stated as (\$16,890)] as reflected in Note 2 of the accompanying Notes to the Financial Statements as of December 31, 2006 and Account #410, Admissions, [stated as \$163,109] as reflected in the accompanying Statement of Operations/Changes in Accountability for the year ending December 31, 2006. As of December 31, 2006, detailed accurate records to substantiate amounts represented as outstanding checks, cash receipts, and deposits did not always exist. The Fair could not provide us the supporting documentation to reconcile the bank balance for Account #113 with the balance in its general ledger. Furthermore, the Fair could not locate all daily admissions sales reports that supported the amounts recorded in the general ledger.

Because of the matter discussed in the fifth paragraph, in our opinion, except for the amount reported in Account #113, Cash in Bank – Operating, and Account #410, Admissions, the 2007 financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the 39th District Agricultural Association, as of December 31, 2007 and the results of its operations and changes in accountability, and cash flows-regulatory basis for the year then ended, in conformity with the accounting principles generally accepted in the United States of America.

The 39th DAA, Calaveras County Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-039, on the 39th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 39th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.



Ron Shackelford, CPA
Chief, Audit Office

October 31, 2008

**39TH DISTRICT AGRICULTURAL ASSOCIATION
CALAVERAS COUNTY FAIR
ANGELS CAMP, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006**

	Account Number	2007	2006
ASSETS			
Cash in Bank	111-117	\$ 100,656	\$ (1,199)
Accounts Receivable, Net	131	15,514	21,254
Prepaid Expenses	141	2,495	3,284
Construction in Progress	190	3,817	-
Land	191	71,698	71,698
Buildings and Improvements, Net	192	913,279	555,617
Equipment, Net	193	40,629	17,843
TOTAL ASSETS		<u>1,148,088</u>	<u>668,497</u>
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable	212	46,757	20,229
Current Portion of Long-Term Debt	211	15,903	8,744
Taxes Payable	221 - 226	2,766	(4,254)
Deferred Income	228	83,275	40,177
Miscellaneous Liabilities	231-235	5,378	3,388
Guaranteed Deposits	241	4,527	6,268
Compensated Absences Liability	245	72,910	74,451
Long-Term Debt	250	109,326	89,381
Total Liabilities		<u>340,842</u>	<u>238,384</u>
Net Resources			
Reserve for Junior Livestock Auction	251	59,633	46,432
Net Resources - Operations	291	(172,484)	(163,351)
Net Resources - Capital Assets, less related debt	291.1	920,097	547,032
Total Net Resources Available		<u>807,246</u>	<u>430,113</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 1,148,088</u>	<u>\$ 668,497</u>

**39TH DISTRICT AGRICULTURAL ASSOCIATION
CALAVERAS COUNTY FAIR
ANGELS CAMP, CALIFORNIA**

**STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
Years Ended December 31, 2007 and 2006**

	<u>Account Number</u>	<u>2007</u>	<u>2006</u>
REVENUE			
State Apportionments	312	\$ 150,000	\$ 150,000
Other - Millennium Flex Funding	317/318	53,300	57,341
Admissions	410	192,069	163,109
Commercial Space	415	69,558	74,536
Carnival	421	52,548	52,590
Food Concessions	422	81,581	67,091
Exhibits	430	18,128	19,159
Horse Show	440	8,228	11,228
Interim Attractions	450	40,459	42,481
Miscellaneous	470	163,048	174,038
JLA - Revenue	476	65,564	48,190
Interim Revenue	480	233,106	181,178
Prior Year Adjustment	490	(2,154)	(1,786)
Other Revenue	495	22,809	116,798
Total Revenue		<u>1,148,244</u>	<u>1,155,953</u>
EXPENSES			
Administration	500	262,101	398,842
Maintenance and Operations	520	283,061	284,366
Publicity	540	118,716	137,192
Attendance	560	95,577	102,209
Miscellaneous	570	144,304	155,837
JLA - Expense	576	52,363	32,058
Premiums	580	22,495	22,755
Exhibits	630	60,523	52,086
Horse Show	640	8,360	14,299
Attractions - Fairtime	660	80,576	114,247
Equipment	723	-	28,437
Prior Year Adjustments	800	(448,341)	(18,675)
Cash Over/Short	850	147	3,371
Depreciation Expense	900	91,229	84,484
Other - Millennium Flex Expenditures	945/950	-	6,411
Total Expenses		<u>771,111</u>	<u>1,417,919</u>
RESOURCES			
Net Change - Income / (Loss)		377,133	(261,966)
Resources Available, January 1		430,113	692,079
Resources Available, December 31		<u>\$ 807,246</u>	<u>\$ 430,113</u>

**39TH DISTRICT AGRICULTURAL ASSOCIATION
CALAVERAS COUNTY FAIR
ANGELS CAMP, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ 377,133	\$ (261,966)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	5,740	38,681
(Increase) Decrease in Other Prepaid Assets	789	9,478
Increase (Decrease) in Accounts Payable	26,528	(1,500)
Increase (Decrease) in Current Portion of Long-Term Debt	7,159	2,651
(Increase) Decrease in Taxes Liabilities	7,020	(8,439)
Increase (Decrease) in Deferred Income	43,098	24,953
Increase (Decrease) in Miscellaneous Liabilities	1,990	3,375
Increase (Decrease) in Guarantee Deposits	(1,741)	2,649
Increase (Decrease) in Compensated Absence Liability	(1,541)	16,753
Total Adjustments	<u>89,042</u>	<u>88,601</u>
Net Cash Provided (Used) by Operating Activities	<u>466,175</u>	<u>(173,365)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction in Progress	(3,817)	-
(Increase) Decrease in Buildings & Improvements	(357,662)	57,620
(Increase) Decrease in Equipmen	<u>(22,786)</u>	<u>458</u>
Net Cash Provided (Used) by Investing Activities	<u>(384,265)</u>	<u>58,078</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	<u>19,945</u>	<u>87,256</u>
Net Cash Provided (Used) by Financing Activities	<u>19,945</u>	<u>87,256</u>
NET INCREASE (DECREASE) IN CASH	101,855	(28,031)
Cash at Beginning of Year	(1,199)	26,832
CASH AT END OF YEAR	<u><u>\$ 100,656</u></u>	<u><u>\$ (1,199)</u></u>

**39TH DISTRICT AGRICULTURAL ASSOCIATION
CALAVERAS COUNTY FAIR
ANGELS CAMP, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 39th District Agricultural Association (DAA) was formed on April 22, 1937, for the purpose of sponsoring, managing, and conducting the Calaveras County Fair each year in Angels Camp, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. In 2007, the Fair changed its prior practices and determined the useful live for all buildings and improvements to be depreciated over a period of 30 years. Prior to 2007, certain buildings and improvements were depreciated at a useful life ranging from 15 to 30 years. This recapture of previous year depreciation amounts is reflected in the accompanying 2007 Statement of Financial Condition in Account #800, Prior Year Expense.

All purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects

that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 7.25% on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization. The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 **CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash	\$ 200	\$ 2,280
Restricted Cash - Scholarship	3,641	0
Cash in Bank - Operating	36,561	(16,890)
Cash in Bank - JLA	19,988	13,158
Cash in Bank – Time Deposits	<u>40,266</u>	<u>253</u>
Total Cash and Cash Equivalents	<u>\$ 100,656</u>	<u>\$ (1,199)</u>

NOTE 3 **ACCOUNTS RECEIVABLE**

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2007</u>	<u>2006</u>
Accounts Receivable - Trade	\$ 26,726	\$ 27,696
Allowance for Doubtful Accounts	<u>(11,212)</u>	<u>(6,442)</u>
Accounts Receivable - Net	<u>\$ 15,514</u>	<u>\$ 21,254</u>

NOTE 4 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Building & Improvements	\$ 3,035,319	\$ 3,052,643
Less: Accumulated Depreciation	<u>(2,122,040)</u>	<u>(2,497,026)</u>
Building & Improvements - Net	<u>\$ 913,279</u>	<u>\$ 555,617</u>
 Equipment	 \$ 135,843	 \$ 98,041
Less: Accumulated Depreciation	<u>(95,214)</u>	<u>(80,199)</u>
Equipment - Net	<u>\$ 40,629</u>	<u>\$ 17,843</u>

NOTE 5 LONG-TERM DEBT

The DAA has entered into a long-term loan agreement with California Construction Authority (CCA). The terms of the agreement are as follows:

Loan Amount	\$ 96,000
First Payment Date	May 1, 2007
Payment Amount	\$ 1,215
Duration of Loan	96 Months
Interest Rate	5.00%
Total Outstanding at 12/31/07	\$ 90,228
 Current Portion at 12/31/07	 \$ 10,122
Current Portion at 12/31/08	\$ 10,806
Current Portion at 12/31/09	\$ 11,356
Current Portion at 12/31/10	\$ 9,935
Current Portion at 12/31/11	\$ 14,543

The DAA has entered into a long-term loan agreement with Division of Fairs & Expositions (F&E). The terms of the agreement are as follows:

Loan Amount	\$ 35,000
First Payment Date	February 1, 2008
Payment Amount	\$ 660
Duration of Loan	60 Months
Interest Rate	5.00%
Total Outstanding at 12/31/07	\$ 35,000
 Current Portion at 12/31/07	 \$ 5,781
Current Portion at 12/31/08	\$ 6,615
Current Portion at 12/31/09	\$ 6,954
Current Portion at 12/31/10	\$ 7,309

NOTE 6 RETIREMENT PLAN

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7 RECLASSIFICATION

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

NOTE 8 LITIGATION

The 39th DAA is involved in various legal actions arising in the normal conduct of its business, none of which, in the opinion of management, will have material effect on its financial position or results of operations.

**39TH DISTRICT AGRICULTURAL ASSOCIATION
CALAVERAS COUNTY FAIR
ANGELS CAMP, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 39th DAA Board of Directors
1	Chief Executive Officer, 39th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



39TH DISTRICT AGRICULTURAL ASSOCIATION
CALAVERAS COUNTY FAIR
ANGELS CAMP, CALIFORNIA

MANAGEMENT REPORT #08-039

YEAR ENDED DECEMBER 31, 2007

39TH DISTRICT AGRICULTURAL ASSOCIATION
CALAVERAS COUNTY FAIR
ANGELS CAMP, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2007

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Cynthia Parsell, CPA

Audit Chief
Assistant Audit Chief
Audit Manager

MANAGEMENT REPORT NUMBER
#08-039

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Stephen Kautz, President
Board of Directors
39th DAA, Calaveras County Fair
P.O. Box 489
Angels Camp, CA 95222-0489

In planning and performing our audit of the financial statements of the 39th District Agricultural Association (DAA), Calaveras County Fair, Angels Camp, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Calaveras County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 39th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 39th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 39th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 39th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 39th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 39th DAA and compliance with state laws and regulations, we identified six areas with reportable conditions that are considered weaknesses in the Fair's operations: accounting for fixed assets, accounts payable and accrued liabilities, admissions revenue, carnival revenue, allowance for doubtful accounts, and personnel compliance. We have provided thirteen recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 39th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

ACCOUNTING FOR FIXED ASSETS

The Fair's accounting for fixed assets as reported on the year-end financial reports was examined, and the following conditions were noted:

- a. During 2007, the Fair made adjusting entries for accumulated depreciation related to Accounting 192, Buildings and Improvements. However, the depreciation schedule had a clerical error and, as a result, the general ledger and property ledger were overstated by \$97,803. This accounting error was also reflected on the Fair's 2007 Statement of Operations (STOP).
- b. Account #192, Buildings and Improvements, and its related accumulated depreciation, Account #192.1, were both overstated at year-end 2007. During 2007, the Fair removed a deck which was in a seriously unstable and unsafe condition. However, our office noted the Fair failed to remove the cost related to the deck and, as a result, the general ledger and property ledger were overstated by \$25,950 in Account #192, Buildings and Improvements, and by \$13,189 in Account #192.1, Accumulated Depreciation – Buildings and Improvements.
- c. Account #193, Equipment, and its related accumulated depreciation, Account #193.1, were both understated at year-end 2007. The Fair did not capitalize equipment totaling \$32,802, which met Department of Finance (DOF) capitalization criteria. According to the criteria, fixed assets used to conduct State business that cost greater than \$5,000 and have a useful life of greater than a year should be capitalized. Additionally, due to the equipment not being properly capitalized in Account #193, the related accumulated depreciation, Account #193.1, was understated by \$5,067.

Recommendations

1. *The Fair should make the necessary correcting journal entries to ensure the amounts reported for fixed assets within its accounting records are fairly stated. In the future, the Fair should reconcile the general ledger to the property ledger to ensure all fixed asset transactions are properly accounted for prior to closing the accounting records and preparing the year-end financial reports. As specified in the F&E Fixed Asset Manual, the property ledger serves as a subsidiary ledger that contains detailed information regarding all fixed asset amounts capitalized in the general ledger.*
2. *The Fair should adhere to Department of Finance regulations by capitalizing all items of equipment that meet the capitalization criteria of a cost greater than \$5,000 and a useful life of greater than a year.*

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Our office examined the Fair's liability accounts as recorded in the year-end accounting records, the following accounting errors or omissions were noted:

Management Report #08-039

Angels Camp, California

- a. The Fair did not maintain a control log nor perform a reconciliation for Account #228, Deferred Income, and Account #241, Guaranteed Deposits. Of the \$90,569 general ledger balances at year-end, only \$86,042 could be traced to source documents, leaving a variance of \$4,527 that could not be verified. Generally accepted accounting principles (GAAP), sound accounting and business practices, as well as the Accounting Procedures Manual (APM), dictate the proper matching of revenues and expenditures in the correct accounting period. Since deferred income and guaranteed deposits represents a liability on the balance sheet, errors in posting of activity to this account may materially affect the results of operations.
- b. The Fair made an attempt to, but did not fully accrue all liabilities at year-end. Our office noted unrecorded liabilities of \$11,210 at year-end relating to 2007 expenses that were subsequently paid in 2008. The accrual basis of accounting requires the recognition of expenses within the period incurred. If expenses have been incurred but not yet invoiced, an effort should be made to reasonably estimate and accrue the liability for the amount owed. This should be done prior to closing the accounting records and preparing the annual Statement of Operations.
- c. CDFA identified one "held check" totaling \$5,018 that was dated October 19, 2007 and as of October 31, 2008, still had not been mailed. The Fair indicated the check being held was to the Calaveras County Tax Collector. It is further noted that the county placed an involuntary lien against the Fair for the unpaid obligation. As a result, the Fair understated its cash on hand and accounts payable at year-end.

Recommendations

3. *The Fair should make it a priority to research and determine the correct balance for Account #228, Deferred Income, and Account #241, Guaranteed Deposits. The necessary correcting journal entries should be made to ensure the account is fairly stated.*
4. *The Fair should comply with GAAP and ensure that its accounts payable at year-end include all known payables, including estimates of utilities, even though billings have not yet been received.*
5. *Checks written and recorded in the general ledger at year-end should be mailed on or before the balance sheet date. Otherwise, a liability should be established for unpaid obligations; obligations are not paid for until the check has been mailed.*

ADMISSIONS REVENUE

The Fair did not maintain adequate supporting documentation for the amounts reported in Account #410, Admissions Revenue. Although the Fair maintained a one-page admissions recap sheet summarizing all 2007 tickets sales, our office was not able to verify the amounts reflected on the summary sheet to detailed source documents. For example, the Daily Sales Breakdown report from the point of sales machines does not reconcile to the number of tickets sold on the summary sheet. As a result, our office could not verify the accuracy of the

admission revenue reported in the general ledger and the 2007 Statement of Operations. This is a prior year audit finding.

Recommendation

6. *The Fair should make the necessary improvements to ensure full accountability exists over all fairtime admission ticket sales. The Fair should ensure they maintain a clear audit trail over admissions revenues by ensuring that sales reflected on daily sales reports from point of sale machines are retained and safeguarded to support the amounts on related summary sheets and the general ledger.*

CARNIVAL REVENUE

The Fair exposed itself to loss by not having both a representative of the Fair and the carnival contractor sign the final carnival settlement sheet. The APM requires both the Fair and the contractor sign the settlement sheet. These signatures verify that the settlement sheet is reviewed and approved by both parties prior to any final monetary settlement. This is a prior year audit finding.

In addition, the Fair did not correctly account for all carnival revenues earned in 2007 within the general ledger and year-end financial statements. Based on our review of the carnival settlement sheet, the Fair earned \$70,356 in total carnival revenue. However, the Fair's general ledger and Statement of Operations (STOP) reported total carnival revenue of \$55,194. The Fair responded that the variance of \$15,162 was probably recorded in the admissions revenue account. This is a prior year audit finding.

Finally, the Fair carnival contractor remits 2.5% of the gross ticket sales for capital improvements. The contract does not specify the terms of the agreement regarding these capital improvements, as required in the F&E Contract Manual in Chapter 1.35. To date the Fair has received \$4,898 for future capital improvements, which have been included in carnival revenue. Both GAAP and APM, as well as sound accounting and business practices, dictate the proper matching of revenues and expenditures in the correct accounting period. Therefore, these funds should be maintained in a capital improvement fund for the future improvements to be made.

Recommendations

7. *The Fair should ensure the carnival settlement sheet has been reviewed and signed by both parties to alleviate any discrepancies that may later arise.*
8. *The Fair should maintain all supporting documentation and reconcile the amounts reported in general ledger for carnival revenues to the amounts on the carnival settlement sheet at the conclusion of the fair. Any variances should be investigated and resolved before the accounting records are closed at year-end.*
9. *The Fair should include additional terms and conditions regarding the capital improvements, so the contract terms can be sufficiently monitored.*

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Fair has established an allowance for doubtful accounts, but our office indentified an additional \$4,770 of receivables that are uncollectible at year-end. The Fair should review the accounts receivable at year-end, and adjust the allowance for doubtful account as appropriate. This should be done prior to closing the accounting records and preparing the annual Statement of Operations. According to the APM, an allowance for doubtful accounts should be recognized in the accounting records when an account is deemed uncollectible. This process presents the Fair's assets more accurately. This was a prior year audit finding.

Recommendations

- 10. The Fair should review the receivables at year-end, and adjust Account #131.1, Allowance for Doubtful Accounts, for any receivable that is considered uncollectible at year-end. The Fair should continue to monitor all outstanding account balances on a timely basis to evaluate their collectability.*
- 11. The Fair should seek Board approval to discharge items less than \$250 after it has exhausted all means of collection. The Fair should submit a Standard 27, Discharge of Accountability, for amounts greater than \$250 to F&E for approval.*

PERSONNEL COMPLIANCE

The Fair's compliance with State personnel laws, rules and regulations was examined and the following weaknesses were identified:

- a. The Fair allowed three employees to work in excess of the 119-day limitation within a calendar year. Although the Fair monitored the number of days worked by each temporary employee, these employees worked 156, 202, and 224 days in the calendar year. According to Article VII Section 4(1) of the Constitution of the State of California, temporary employees may not work more than 119 days in a calendar year. Furthermore, the Accounting Procedures Manual states that temporary employees may not work more than 119-days in one calendar year.
- b. The Fair allowed two employees to exceed the maximum leave accrual of 640 hours. The Department of Personnel Administration (DPA) limits the amount of hours that permanent employees may carry over to the following calendar year to a maximum of 640 hours. As a State agency, the 39th DAA must comply with these limitations.

Recommendations

- 12. The Fair should continue to monitor the number of days worked by temporary employees and ensure that no temporary employee exceed the 119-day limitation.*
- 13. The Fair should ensure that permanent employees do not carry over accrued leave hours in excess of 640 hours. The Fair should encourage employees with excess balances to take time off, thereby reducing their accumulated leave balances.*

NON-REPORTABLE CONDITIONS

CASH RECEIPTS

Our office noted the Fair increased its exposure to loss by not always depositing cash receipts on a timely basis. The F&E APM Section I, 2.331, Deposit of Cash Receipt, states that the Fair is to make bank deposits the next business day whenever cash exceeds \$500, or cash and checks in the aggregate exceed \$5,000. Moreover, no collection may remain undeposited for more than fifteen working days. The Fair allowed various cash deposits exceeding \$5,000 to remain undeposited for up to 7 days.

Based on the review of cash receipts, we noted the Fair does not always record the credit card receipts on the date they are actually received. Instead, the Fair batches credit card receipts by event. We noted the recording date is the date the accounting department receives the money rather than the actual date collected for cash collected for satellite wagering, polo lounge, and lotto. According to Section 2.332 of the APM, the Fair should record collected cash receipts daily in the receipts journal.

Recommendations

The Fair should ensure it deposits cash receipts within the timeframes specified in the APM. The timely deposit of cash receipts helps minimize the risk of loss or other misuses of cash or cash equivalents collected.

The Fair must ensure that all revenues are receipted in the receipt journal at the time they are received and prior to making bank deposits pursuant to the APM Section 2.332.

BANK RECONCILIATIONS

The Fair's bank reconciliation process was reviewed and the following are noted:

- a. The bank reconciliations were not always prepared in a timely manner or signed by the preparer. The APM requires Fairs to prepare bank reconciliations within ten days of receiving the related bank statements. The reconciliation process also involves a review by someone other than the preparer. The Fair did not always sign and date the reconciliation to indicate when the review process was completed.
- b. The bank reconciliation for the operations account at year-end did not match the general ledger. An entry was proposed after the reconciliation was prepared. The general ledger is fairly stated at year-end.
- c. The Fair could not locate the Standard 445, Report of Bank/Savings & Loan Association Account Outside the State Treasury, for fiscal year ended June 30, 2007. Therefore, our office was not able to verify the balances as reported.

Recommendations

The Fair should comply with the bank reconciliation process in the APM and ensure bank reconciliations for all accounts are prepared within 10 days of receiving the bank statement, are signed and dated by the preparer, and are signed and dated after the review has been completed.

The Fair should ensure that the Standard 445 is completed each year, and a copy maintained in the permanent files.

BOARD MINUTES

The Fair's minutes of the Board of Directors did not always contain a signature of approval from a board member. The Fair manager and the Board president should review and approve the minutes to improve controls. This serves two purposes: (i) ensures that the minutes accurately reflect the activity discussed during the public forum and (ii) mitigates the possibilities of any changes being made to the minutes. This is a prior year audit finding.

Recommendations

The Fair should ensure that a Board member formally certifies the minutes of all Board of Director's meetings by signing and dating the minutes.

PAYROLL PROCEDURES

An examination of the Fair's payroll procedures revealed the following internal control weaknesses:

- a. A board member, preferably the board president, did not approve all 2007 timesheets of the Chief Executive Officer (CEO). According to the Accounting Procedures Manual, the Fair should maintain time cards for all employees to ensure compliance with labor laws related to overtime and paid leaves. They must be reviewed and signed by a supervisor, and time cards should show hours worked and leave taken.
- b. A variance of \$2,322 was noted between the general ledger and the payroll journals. The Fair erroneously posted wages to supplies and expense accounts.

Recommendations

The Fair should ensure all monthly time cards are formally reviewed and approved by each employee's supervisor.

The Fair should post wages to the appropriate general ledger accounts, and reconcile the general ledger to the payroll reports at year-end.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE

State of California
Association

39th District Agricultural

P.O. Box 489
101 Frogtown Road
Angels Camp, California 95222
Tel: (209) 736-2561
Fax: (209) 736-2476
Email: ray@frogtown.org

MEMORANDUM

Date: 2/22/2009

To: Ron Shackelford, CPA,
Chief, Audit Office
Department of Food and Agriculture

Cc: Michael Treacy, Director, Fairs and Expositions
Bruce Lim, Deputy Director, Fairs & Expositions
Rick Wood, CFSA
39th DAA Board of Directors

From: Steven Kautz, President
Ray Malerbi, CEO
39th District Agricultural Association

Re: CDFA Management Report #08-039 – Response to Findings

The following is the Fair's response to the preliminary draft of the CDFA audit for the year ending 12/31/07.

Reportable Conditions

Accounting for Fixed Assets

1. The Fair has shared with CFSA (our accounting and payroll contractor) the errors noted in the audit and in a) the \$ 97,803 clerical error and in b) the removal of the demolished deck as a fixed asset and CFSA has corrected both items and they are correctly reflected in the December 2008 financials and will also be reflected in the 2008 STOP.
2. The Fair will adhere to the regulation of capitalizing all items costing more than \$5,000. As per the instructions of the auditor CFSA is making the adjustments.

Accounts Payable and Accrued Liabilities

3. The Fair is working with CFSA to reconcile the balances in Accounts 228 and 241.

4. The Fair is working with CFSA to ensure its accounts payable at the end of the year include all known payables and estimates for utilities not yet billed.
5. The check to the Calaveras County Tax Collector that was being held was voided in December and is no longer reflected as an account payable and cash on hand is reflected correctly. Negotiations continue on the possible liability to the Fair.

Admission Revenue

6. The Fair is currently working with the contractor that provides the automated ticketing system used. The results of the audit were detailed to the contractor and improvements to the reporting system are being made. The Fair will also keep a secondary accountability for admissions revenue to be able to check the accuracy of the automated system.

Carnival Revenue

7. The Fair acknowledges that it has been remiss in not having the final reconciliations signed by both the Fair and the Carnival. The current Carnival contractor was told of this remission by the Fair and the past three reconciliations have been signed by both parties and copies were supplied to the Carnival contractor. The Fair will be diligent to have all future final reconciliations signed by both parties.
8. The Fair sells advance discount combination admission and carnival wristbands. The Fair did not separate the admission portion from the carnival, thus overstating the carnival and understating admissions. The 2008 admissions and carnival revenue are being looked at to make sure the STOP correctly reflects both areas. The cause of the issue will be corrected for 2009.
9. The Fair and Carnival have agreed to the project for the capital improvement money to be used for and a memo to that effect is in the process of being finalized. The fair has created a liability account to reflect the Carnival's payments for capital improvements which will include the years 2006, 2007 and 2008, which were the first three years of the five year carnival agreement.

Allowance for Doubtful Accounts

10. The Fair has reviewed the receivables for the end of 2008 and have requested changes to the Allowance for Doubtful Accounts so the financial statements more adequately reflect the Fair's financial position.
11. The Fair will review and present a list of doubtful accounts to the Board on a quarterly basis and will make recommendations to the Board at the end of

each year for discharge of doubtful accounts less than \$250. The Fair sent a request to F&E in 2006 for relief of doubtful accounts that had been carried for many years. While F&E has acknowledged working on the list, the Fair will update the list, present it to the Board for approval and resubmit it to F&E within the next 60 days.

Personnel Compliance

12. The Fair will make every attempt to better monitor the number of days temporary employees work on a yearly basis to prevent working in excess of 119 days.
13. With the exception of the CEO all permanent employees are now in compliance with the 640 hour annual leave limitation. The CEO continues to monitor all leave balances and will report to the Executive Committee of the Board on a quarterly basis the balance of all employees. The CEO currently is unable to take all the time off to come within the 640 hour limitation due to limited staffing and required workload.

Non-Reportable Conditions

Although responses are not required the Fair feels it is important to acknowledge receipt and disposition for these items.

Bank Reconciliations – The CEO has met with CFSA to ensure that bank reconciliations be sent for review in a timely manner, not more than ten days after receipt from the bank. The reconciliations will be reviewed and signed each month by the CEO. The Fair requested a copy of the Standard 442 for 2007 but has not yet received it. The 2008 report is on file and available for the 2008 audit.

Board Minutes – The Fair began having minutes signed after the 2006 audit. All 2008 minutes have been signed by Board President or another Board Member.

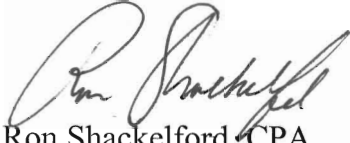
Payroll Procedures– All of the CEO's time sheets will be signed by a member of the Executive Committee of the Board.

C DFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 39th DAA, Calaveras County Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between October 20, 2008 and October 31, 2008. My staff met with management on October 31, 2008 to discuss the findings and recommendations, as well as other issues.

A handwritten signature in black ink, appearing to read "Ron Shackelford".

Ron Shackelford, CPA
Chief, Audit Office

October 31, 2008

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 39th DAA Board of Directors
1	Chief Executive Officer, 39th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office